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WC 03-171

July 14, 2003

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JUL 1 7 2003

Federal Communications Commission
Office of the Secretary

VIA HAND DELIVERY

Ms. Marlene Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: In the Matter of Core Communications, Inc. Petition for Forbearance Under 47 U.S.C. 160(c) from Application of the ISP Remand Order

Dear Ms. Dortch:

Attached for filing with the Federal Communications Commission please find an original and four (4) copies of the Petition for Forbearance of Core Communications, Inc.. Attached please also find a duplicate of this filing. Please date-stamp the duplicate upon receipt and return it to the courier.

Please feel free to contact the undersigned counsel at (202) 887-1211 if you have any questions regarding this filing.

Respectfully submitted,

Brett H. Freedson

Brett Heather Freedson

CC (via email): Tamara Preiss, Wireline Competition Bureau
Steven F. Morris, Wireline Competition Bureau
Jeremy D. Marcus, Wireline Competition Bureau

DC01/FREEB/207535.1

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Core Communications, Inc.	)	WC Docket No. __________
	)	
Petition for Forbearance Under	)	
47 U.S.C § 160(c) from Application of	)	
the ISP Remand Order	)	

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JUL 17 2003

Federal Communications Commission
Office of the Secretary

PETITION FOR FORBEARANCE

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Counsel for Core Communications, Inc.

July 14, 2003

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Before the
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In the Matter of	)	
	)	
Core Communications, Inc.	)	WC Docket No. __________
	)	
Petition for Forbearance Under 47 U.S.C § 160(c) from Application of the ISP Remand Order	)))	

PETITION FOR FORBEARANCE

Core Communications, Inc. ("Core" or the "Company"), by its attorneys and pursuant to Section 1.53 of the Commission's rules,[1] hereby respectfully requests that the Federal Communications Commission (the "Commission") exercise its forbearance authority under Section 10 of the Communications Act of 1934, as amended (the "Act"),[2] and accordingly, forbear from applying the provisions of the *ISP Remand Order*[3] to the exchange of ISP-bound traffic between telecommunications carriers. As explained below, grant of this Petition is compelled by any reasonable application of Section 10 to the *ISP Remand Order.*

I. INTRODUCTION AND SUMMARY

Although perhaps unintended, the on-going application of the Commission's rules and regulations promulgated under the *ISP Remand Order* (which is *again* before the Commission, on remand from the D.C. Circuit) has been an utter disaster for competitive local exchange carriers ("CLECs") and a regulatory boon for the Bell Operating Companies

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1 47 C.F.R. § 1.53.

2 47 U.S.C. § 160(c).

3 *See In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996* (CC Docket No. 96-98) and *Intercarrier Compensation for ISP Bound Traffic* (CC Docket No. 99-68), Order on Remand and Report and Order, FCC 01-131 (rel. Apr. 27, 2001), *remanded without vacatur, WorldCom, Inc. v. FCC,* 288 F.3d 429 (D.C. Cir. 2002) ("*ISP Remand Order*").

("BOCs"). In the *ISP Remand Order*, the Commission expressly stated that "there is no reason ... to distinguish between voice and ISP traffic with respect to intercarrier compensation."[4] The Commission went so far as to conclude that:

> It would be unwise as a policy matter, and patently unfair, to allow incumbent LECs to benefit from reduced intercarrier compensation rates for ISP-bound traffic, with respect to which they are net payors, while permitting them to exchange traffic at state reciprocal compensation rates, which are much higher than the caps we adopt here, when the traffic imbalance is reversed.[5]

In spite of the Commission's efforts to achieve a different result, this is exactly what has happened: the BOCs have continued to collect literally billions of dollars in intercarrier compensation payments using their embedded, rate-payer-financed plant,[6] while new entrants have been denied the ability to recover similarly the cost of their investments. The status of competition two years following the Commission's implementation of the *ISP Remand Order* clearly demonstrates that the Commission was rightly "concerned about the superior bargaining power of incumbent LECs,[7]" as the ILECs persistently have contorted the *ISP Remand Order* to maximize the amount of the intercarrier compensation payments that they collect, and to minimize the amount of the intercarrier compensation payments that they make to CLECs.

The Commission should immediately forbear from applying the scheme promulgated under the *ISP Remand Order* to the exchange of ISP-bound traffic between telecommunications carriers. The *ISP Remand Order* has no basis in law and discriminates

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4 *Id.*, ¶ 93.

5 *Id.*, ¶ 89 (citation omitted).

6 A breakdown of BOC intercarrier compensation revenues collected by traffic type is not generally available. Core invites any BOC that wishes to dispute this claim to complete the table appended as Attachment Tab A and submit it to the Commission with an affidavit attesting to its validity. Core doubts that any BOC will complete this table, even though the BOCs have this data readily available.

7 *ISP Remand Order*, ¶ 89.

against and among CLECs in favor of the BOCs in manner that is wholly inconsistent with the policy goals of the Act. Moreover, the anticompetitive impact of the *ISP Remand Order* has dealt a crushing blow to CLECs, the telecommunications industry, and the broader national economy. As required by the Act, the Commission must exercise its forbearance authority, in cases such as this one, where on-going application of the Commission's existing rules harm the interests of consumers and other telecommunications carriers. Accordingly, the Commission is compelled to grant this Petition by the plain language of the Act.

II. THE RULES AND REGULATIONS PROMULGATED UNDER THE *ISP REMAND ORDER* ARE MATERIALLY FLAWED

The rules and regulations promulgated under the *ISP Remand Order* are legally unsound, and have operated to produce anticompetitive harm that is inconsistent with the policy goals of the Act. As an initial matter, the D.C. Circuit already has confirmed that the ostensible legal basis for the Commission's intercarrier compensation regime for ISP-bound traffic is defective. Moreover, the Commission's application of the *ISP Remand Order* has resulted in the discriminatory treatment of CLECs.

A. The D.C. Circuit Already Has Rejected The Commission's Proclaimed Legal Basis For The Rules And Regulations Promulgated Under The *ISP Remand Order*

In *Worldcom, Inc. v. FCC*, 288 F.3d 429 (D.C. Cir. 2002), the D.C. Circuit rejected the Commission's proclaimed legal basis for the intercarrier compensation regime for ISP-bound traffic that it established under the *ISP Remand Order*. Specifically, the court concluded that Section 251(g) of the Act, upon which the entire *ISP Remand Order* is founded, does not vest in the Commission the authority to regulate the rates and terms that apply to the exchange of ISP-bound traffic between telecommunications carriers.[8] Therefore, although the

8 *Worldcom*, 288 F.3d at 434.

Worldcom court did not reach the merits of the *ISP Remand Order*,[9] the D.C. Circuit held that the Commission's efforts to directly regulate the rates and terms that apply to the exchange of ISP-bound traffic between telecommunications carriers, including the Commission's intercarrier compensation regime for ISP-bound traffic, are an unlawful exercise of the Commission's authority under the Act.[10]

B. The Rules And Regulations Promulgated Under the *ISP Remand Order* Blatantly Discriminate Among Telecommunications Carriers

The rules and regulations promulgated under the *ISP Remand Order*, as applied to the exchange of ISP-bound traffic between telecommunications carriers, discriminate against individual CLECs, namely new entrants that must compete in a competitive market to provide service to ISP customers. Specifically, the *ISP Remand Order* imposed a new market bar that requires bill-and-keep compensation arrangements for the exchange of ISP-bound traffic between all carriers that did not exchange such traffic pursuant to an interconnection agreement before April 18, 2001, the effective date of the *ISP Remand Order*.[11] The *ISP Remand Order* also imposed a growth cap on the number of terminating ISP-bound minutes for which a carrier may collect reciprocal compensation, based on the number of ISP-bound minutes for which the carrier was entitled to collect reciprocal compensation, pursuant to an interconnection agreement, during the first quarter of 2001.[12] As the Commission might have expected, two similarly situated CLECs – both of which relied on the Commission's previous rules in formulating their business plans, both of which invested substantial time and financial resources into developing

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9 *Id.*

10 *Id.*

11 *ISP Remand Order*, at ¶ 81.

12 *Id.* at ¶ 78.

their telecommunications operations, and both of which marketed their service primarily to ISP customers – have experienced entirely different regulatory regimes under the *ISP Remand Order.*

The disparate impact of the new market bar and growth cap provisions of the *ISP Remand Order* has placed new entrants at a crippling competitive disadvantage as compared to the ubiquitous, rate-payer-financed BOCs, as well as CLECs that already had established a presence in various local telecommunications markets prior to the Commission's implementation of the intercarrier compensation regime for ISP-bound traffic. Because the *ISP Remand Order* precludes new entrants from collecting reciprocal compensation for terminating traffic to their ISP-bound customers, such carriers must recoup their terminating switch costs only from their end users or must absorb those costs entirely. Therefore, the inevitable consequence of the new market bar and growth cap provisions of the *ISP Remand Order* is that new entrants must offer telecommunications service to consumers at higher, non-competitive rates, vis-à-vis the BOCs, which long ago recovered all of the costs of their networks from their historically captive rate payers.

In the *ISP Remand Order*, the Commission cleverly observed that "nothing in th[e] Order prevents any carrier from serving or indeed expanding service to ISPs so long as they recover the costs of additional minutes from ISP customers."[13] However, the Commission appears to have overlooked that, in a competitive market, the price that a carrier may charge its customers for the provision of a specific telecommunications service is limited by the price charged by its competitors for the same service, as well as by the purchasers' demand. The intercarrier compensation regime imposed for ISP-bound traffic by the *ISP Remand Order*

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13 *ISP Remand Order* at ¶ 86.

cheapens investments by CLECs, hampers the ability of CLECs to attract financing, and at the same time, favors the BOCs.

For the reasons set forth above, the new market bar and growth cap provisions of the *ISP Remand Order* place CLECs at a competitive disadvantage as compared to the BOCs that offer telecommunications service to ISPs. Indeed, the BOCs are unaffected, and in fact favored, by the discriminatory new market bar and growth cap provisions of the *ISP Remand Order*, which serve only to harm CLECs. Furthermore, because the BOCs maintain dominant market positions with respect to a broad range of telecommunications services, they continue to collect billions and billions of dollars in reciprocal compensation, while using regulatory arbitrage to eliminate payments to CLECs for costs caused by the BOCs. Thus, the BOCs have used their "superior bargaining position" (a/k/a, monopoly status) to further their market dominance, and to block competitive entry into local telecommunications markets.

III. THE ANTICOMPETITIVE IMPACT OF THE *ISP REMAND ORDER* HAS DISCOURAGED INVESTMENT IN TELECOMMUNICATIONS BUSINESSES, TO THE DETRIMENT OF THE INDUSTRY AND THE BROADER ECONOMY

The widespread and substantial anticompetitive effects of the *ISP Remand Order* have deterred investment in telecommunications businesses, and have thereby substantially harmed the competitive telecommunications industry and the broader national economy. Indeed, the reduced rates for reciprocal compensation, new market bar, and growth cap provisions of the *ISP Remand Order* marked an abrupt shift in regulatory policy that marginalized the progress of many CLECs in developing business plans heavily dependent upon the CLECs' ability recoup embedded costs, in part, through the collection of reciprocal compensation revenues. The resulting inability of CLECs to meet the targets of their existing business plans deterred further investment in telecommunications businesses, as necessary to promote CLECs' ongoing operations and expansion, and to maintain the vitality of the telecommunications industry as a whole. Consequently, the telecommunications industry has suffered great financial losses that have adversely affected the broader national economy.

In the *ISP Remand Order*, the Commission expressly recognized the importance of maintaining a regulatory environment that would not disrupt the legitimate business expectations of CLECs that acted in reliance on the former intercarrier compensation regime in the planning of their telecommunications operations and network expansion. In setting forth the intercarrier compensation regime for ISP-bound traffic imposed by the *ISP Remand Order*, the Commission stated:

> [W]e believe it prudent to avoid a flash cut to a new compensation regime that would upset the legitimate business expectations of carrier and their customers. Subsequent to the Commission's Declaratory Ruling, many states have required the payment of reciprocal compensation form ISP-bound traffic, and CLECs may have entered into contract with vendors or with their ISP customers that reflect the expectation that CLECs would continue to receive reciprocal compensation revenue.

Nevertheless, the reduced rates for reciprocal compensation, new market bar, and growth cap provisions of the *ISP Remand Order* do not account for the legitimate business expectations of new entrants, or of those CLECs intending to expand their telecommunications operations into new markets.

Indeed, the *ISP Remand Order* effectively bars the collection of reciprocal compensation for the termination of ISP-bound traffic by CLECs, such as Core, that were in the initial stages of rolling out or expanding their operations at the time that the intercarrier compensation regime imposed by the *ISP Remand Order* was implemented. Accordingly, as a result of the Commission's scheme promulgated under the *ISP Remand Order*, several years of business planning and financial investment by CLECs have been rendered meaningless, while over the same period, BOC earnings (as well as profits) have soared.[14]

In formulating the intercarrier compensation regime for ISP-bound traffic imposed by the *ISP Remand Order*, the Commission critically discounted that many CLECs did, in fact, rely on their continuing ability to collect reciprocal compensation revenues under the existing regulatory regime upon investing substantial time and financial resources in developing their business plans. Indeed, the Commission stated:

> Unlike those carriers that are presently serving ISP customers under existing interconnection agreements, carriers entering new markets have no need of a transition during which to make adjustments to their prior business plan.[15]

However, the bulk of the substantial financial investments made by CLECs, which include the acquisition of switches and the preparation of interconnection facilities, occur before service is turned up. Accordingly, such investments that were made prior to the Commission's implementation of the *ISP Remand Order*, and with the expectation that CLECs would continue to recoup their operating costs and maintain their profitability through the collection of reciprocal compensation for terminating ISP-bound traffic, largely were never recovered amid the widespread failure of infant telecommunications businesses.

Not surprisingly, the recent loss of substantial capital investments in the competitive telecommunications industry, coupled with the inability of CLECs to generate profits in a market hostile to new entrants, has deterred further investment in telecommunications businesses as necessary to promote CLECs' ongoing operations and expansion, and to maintain

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14 For example, Verizon Communications reported 2002 earnings of \$8.4 billion before extraordinary expenses and free cash flow of \$4.8 billion. SBC Communications similarly reported 2002 earnings of \$7.5 billion. Attachment B contains Verizon and SBC press releases that confirm these figures. These companies are hardly the type that need special interest "protection" from regulators.

15 *ISP Remand Order* at ¶ 81.

the vitality of the competitive telecommunications industry as whole. In turn, because the rules and regulations promulgated under the *ISP Remand Order* have devastated the competitive telecommunications industry, they have also caused substantial harm to the broader national economy.

IV. THE COMMISSION SHOULD FORBEAR FROM APPLYING THE SCHEME PROMULGATED UNDER THE *ISP REMAND ORDER*

Section 10 of the Act directs that:

> [T]he Commission *shall* forbear from applying any regulation or any provision of th[e] Act to a telecommunications carrier...in any or some of its...geographic markets, if the Commission determines that (a) enforcement of such regulation or provision is not necessary to ensure that the charges, practices, classifications, or regulations by, for, or in connection with that telecommunications carrier...are just and reasonable and are not unjustly or unreasonably discriminatory; (b) enforcement of such regulation or provision is not necessary for the protection of consumers; and (c) forbearance from applying such provision or regulation is consistent with the public interest.[16]

Under this standard, as explained below, the Commission is compelled to forbear from applying the unlawful regulatory scheme promulgated under the *ISP Remand Order,* which contrary to the public interest has debilitated competition in the market for telecommunications services, has discouraged investment in telecommunications businesses, and has harmed consumers by reducing choice among telecommunications providers.

A. The Commission's Application Of The Rules And Regulations Promulgated Under The *ISP Remand Order* Is Not Necessary To Prevent Anticompetitive Harm To Telecommunications Carriers

The Commission's application of the rules and regulations promulgated under the *ISP Remand Order* are not necessary to prevent anticompetitive harm to telecommunications carriers. Rather, as discussed more fully above, the reduced rates for reciprocal compensation,

[16] 47 U.S.C. § 160 (emphasis added).

new market bar, and growth cap provisions of the *ISP Remand Order* require only certain CLECs to recoup their terminating switch costs for ISP-bound traffic from their end users, and thereby place those carriers at a competitive disadvantage as compared to the BOCs, and to other competitive carriers established within a specific local market prior to the Commission's implementation of the *ISP Remand Order*. Because the rules and regulations promulgated under the *ISP Remand Order* are anticompetitive and unjustly discriminate among telecommunications carriers, the Commission should forbear from further applying them.

B. The Commission's Application Of The Rules And Regulations Promulgated Under The *ISP Remand Order* Is Not Necessary To Protect the Interests of Telecommunications Consumers

The Commission's application of the rules and regulations promulgated under the *ISP Remand Order* are not necessary to protect the interests of telecommunications consumers. To the contrary, application of the remanded rules has harmed telecommunications consumers through artificially high rates and reduced competitive choice that has resulted from the reduced rates for reciprocal compensation, new market bar, and growth cap provisions of the *ISP Remand Order*. Indeed, CLECs (but not the BOCs) have expressly been forced to recoup all of their terminating switching costs for ISP-bound traffic from end users, rather than in part from other carriers (a discriminatory benefit preserved for the BOCs) even though "there is no reason … to distinguish between voice and ISP traffic with respect to intercarrier compensation."[17]

Indeed, the competitive disadvantage to CLECs that has resulted from the intercarrier compensation regime imposed under the *ISP Remand Order* has forced CLECs from the market and deterred investment in telecommunications businesses, thereby limiting the service options available to telecommunications consumers. Because the rules and regulations

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17 *Id.*, ¶ 93.

promulgated under the *ISP Remand Order* are harmful to the interests of telecommunications consumers, the Commission should forbear from further applying them.

C. The Commission's Forbearance From Applying the Rules and Regulations Promulgated Under The ISP Remand Order Unquestionably Will Service The Public Interest

The Commission's forbearance from applying the rules and regulations promulgated under the *ISP Remand Order* would enable a great number of CLECs to maintain and expand their current telecommunications operations, and therefore would serve the public interest. As demonstrated in this Petition, the reduced reciprocal compensation rates, new market bar and growth cap provisions under the *ISP Remand Order* have brought about anticompetitive harm to CLECs, deterred investment in telecommunications businesses, limited the service options available to telecommunications consumers, and severely damaged the state of the telecommunications industry and the broader economy. The Commission's forbearance from further application of the rules and regulations promulgated under the *ISP Remand Order* would generate increased technological innovation, robust competition and enhanced consumer choice, and thereby would serve the policy goals of the Act.

V. CONCLUSION

Consistent with the discussion presented herein, the Commission is compelled to exercise its authority under Section 10 of the Communications Act of 1934, as amended (the "Act"), and accordingly, to forbear from applying the *ISP Remand Order* to the exchange of ISP-bound traffic between telecommunications carriers.

Respectfully submitted,

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July 14, 2003

Attachment A
Petition for Forbearance Pursuant to 47 U.S.C. § 160

Intercarrier Compensation
Calendar Year 2002

[illegible]	Amount Collected 2002	Amount Remitted 2002
Interstate Access		
Intrastate Access		
CMRS		
Local		
Voice		
ISP-Bound		

I declare under the laws of the United States that the information presented above is true and correct and accurately reflects the intercarrier compensation collected and remitted during calendar year 2002.

Name: ____________________

Title:

Company:

Dated: ________________, 2003

News Release

Verizon Communications Reports Strong Yearly Operational Growth and Gives Outlook for 2003

Jan. 29, 2003

Media contacts:
Peter Thonis, 212-395-2355
Bob Varettoni, 212-395-7726

FOURTH-QUARTER HIGHLIGHTS

- 964,000 Verizon Wireless net customer additions, excluding acquisitions; 32.5 million total customers
- 566,000 long-distance net customer additions, for a total of 10.4 million -- making Verizon the U.S.'s third largest long-distance carrier for consumers
- 148,000 new net digital subscriber lines (DSL), for a total of 1.8 million lines

2002 HIGHLIGHTS

- Met or exceeded year-end targets for revenue growth, diluted EPS (earnings per share), capital expenditures, debt management, and long-distance and DSL customers
- Total debt reduced by $10.2 billion, to $54.1 billion from $64.3 billion, a 15.9 percent decrease
- Net debt (total debt less cash and cash equivalents) reduced by $10.7 billion, to $52.6 billion from $63.3 billion, a 16.9 percent decrease; commercial paper reduced 83.6 percent, to $2.1 billion from $12.8 billion
- $4.8 billion in free cash flow (cash from operating activities less capital expenditures of $12.0 billion, capitalized non-network software and dividends)

2003 GUIDANCE

- EPS of $2.70 to $2.80, after offsets from reduced pension income, reduced income from 2002 access line sales, and expensing stock options
- Comparable revenue growth of 0 to 2 percent
- Capital expenditures (including capitalized non-network software) of $12.5 to $13.5 billion
- Net debt of $49 to $51 billion

NEW YORK -- Verizon Communications Inc. (NYSE:VZ) today announced fourth-quarter 2002 diluted EPS of 83 cents, or 79 cents before special items, on the strength of comparable quarterly revenue growth and expense reduction, and continued strong sales of wireless, long-distance, DSL and bundled product offerings.

For the fourth quarter, Verizon's reported earnings were $2.3 billion, or 83 cents per share, including a net of $99 million, or 4 cents per share, in special items. Nearly $1.2 billion in gains, primarily associated with $1.1 billion in tax benefits, were largely offset by after-tax charges totaling $1.1

billion, including $604 million primarily for pension and benefit costs related to prior force reductions, $292 million for costs related to the bankruptcy of Genuity Inc., $129 million for merger transition costs, and $42 million in other items. This is the final quarter that Verizon will incur transition costs.

Reported operating revenues were $17.2 billion, and operations and support expenses were $11.0 billion in the fourth quarter 2002. Revenues, operating expenses and statistics described on a comparable basis exclude special gains and charges and the effects of the sale of 1.27 million switched access lines during third quarter 2002, and include the consolidation of Telecomunicaciones de Puerto Rico, Inc. (PRTC) and the deconsolidation of CTI Holdings S.A. beginning in 2002.

Fourth-quarter operating revenues, on a comparable basis, increased 1.5 percent to $17.2 billion from $17.0 billion, including a double-digit increase for the second consecutive quarter in Verizon Wireless revenues, which grew 16.3 percent to $5.2 billion, from $4.4 billion in the fourth quarter of 2001. Fourth-quarter operations and support expenses, on a comparable basis, declined 3.5 percent to $9.6 billion, from $9.9 billion in fourth quarter 2001.

Also today, Verizon Wireless will withdraw its registration statement for an initial public offering of equity securities, filed with the Securities and Exchange Commission, given the ongoing strong cash flow at Verizon Wireless and the lack of significant funding requirements that need to be addressed.

A Year of Great Progress

Chief Executive Officer Ivan Seidenberg said, "We achieved great progress in 2002. Our business model proved strong enough to carry us through a very difficult economic environment and allowed us to anticipate and adapt to the unprecedented technological changes in our industry. Throughout the year, we have focused on execution, generating cash flow and maintaining operational excellence, and we delivered on our financial and operational targets. While conserving capital, we met customer demands through product and packaging innovations and by using advanced technology to efficiently provide more capabilities through our world-class wireline and wireless networks."

Seidenberg added, "Our wireless, long-distance and DSL businesses continue to position Verizon well in growth markets. We have built an excellent foundation for 2003. Our continuing product innovation, combined with the quality of our customer service and the sophistication, scope and reliability of our networks, has Verizon poised for more customer growth in the year ahead."

In the fourth quarter, Verizon saw gains in EBITDA margins on a comparable basis. (EBITDA is determined by adding depreciation and amortization to operating income; EBITDA margin is calculated by dividing EBITDA by total operating revenues, or service revenues for Verizon Wireless.) Verizon's consolidated EBITDA margin was 44.4 percent in the quarter, a 290 basis-point improvement over fourth quarter 2001. Verizon Wireless' EBITDA margin was 40.1 percent, a 520 basis-point improvement over the prior year's quarter. The EBITDA margin at Verizon's largest business unit, Domestic Telecom, was 45.1 percent in the quarter, a 270 basis-point improvement over fourth quarter 2001.

This also marked the eighth consecutive quarter that Domestic Telecom has reduced its operations and support expenses over the prior-year period. On a comparable basis with the fourth quarter 2001, these expenses decreased by 7.1 percent, to $5.5 billion, in the fourth quarter 2002. Year-over-year on a comparable basis, these expenses were reduced by $1.3 billion in 2002.

Customer Growth

Operationally in the fourth quarter, Verizon Wireless added 964,000 customers on a net basis, 34.8 percent more than in the prior year's quarter. Verizon added 566,000 long-distance customers on a net basis to become the nation's third-largest provider of consumer long-distance service, with 10.4 million customers. Net additions of DSL lines exceeded 148,000 in the quarter, for a year-end total of 1.8 million lines and a year-over-year increase of 50 percent.

For the year, the total number of customers increased by 3.1 million, including acquisitions, for Verizon Wireless and 3 million for Verizon long distance. Nearly 570,000 customers subscribe to the Verizon "Veriations" package plans that were introduced less than six months ago. These plans bundle local services with various combinations of long distance, wireless and Internet access in a discounted package available on one bill.

Year-End Financials: Strong Cash Management

Verizon's 2002 earnings, before special items, were $8.4 billion, or $3.05 a share, compared to $8.2 billion, or $3.00 a share, in 2001. On a comparable basis, operating revenues were flat for the year, at $67.0 billion, while operating expenses declined 1.4 percent to $51.2 billion, from $51.9 billion in 2001.

Total debt decreased 15.9 percent to $54.1 billion at year-end 2002, compared to $64.3 billion at year-end 2001. Verizon reduced commercial paper by $10.7 billion in 2002, to $2.1 billion at year-end 2002 compared to $12.8 billion at year-end 2001. Net debt was $52.6 billion at year-end 2002, which was at a lower level than the company's guidance.

Free cash flow improved by $7.8 billion for the year, aided by improved cash from operations and by reductions in capital expenditures, which totaled $12.0 billion in 2002 compared to $17.4 billion in 2001.

At year-end 2002, Verizon recorded a balance sheet adjustment for additional minimum liability (AML), in accordance with FAS 87 accounting rules. AML is the difference between the funded status and the accrued benefit obligation for each pension plan, determined on a plan-by-plan basis. Verizon's adjustment increased its employee benefit liabilities by $1.3 billion. This non-cash adjustment was recorded as an after-tax reduction in shareowners' investment of approximately $811 million.

Seidenberg said, "We produced strong cash-management results in 2002, and we expect to continue this trend in 2003. Our guidance reflects a view that while the effects of the economic downturn may persist, we will be in a position to further reduce debt and operating expense. At the same time, we expect to stabilize revenue declines in certain markets, use our new nationwide long-distance capabilities to make inroads into the business market, and grow revenues in consumer markets through continued product and packaging innovation for wireline, wireless, long-distance and DSL services."

2003 Guidance

Revenue growth, on a comparable basis, is anticipated to be 0 to 2 percent in 2003.

The company anticipates that operational growth will contribute from 6 to 18 cents in EPS -- offset 41 to 43 cents by reduced pension income of 30 to 32 cents, reduced income from 2002 access line sales of 9 cents, and an accounting change of 2 cents to expense stock options. This results in a 2003 EPS target of $2.70 to $2.80, compared to last year's $3.05.

Capital expenditures, including capitalized non-network software, are targeted in the $12.5 to $13.5 billion range, compared to $13.1 billion in equivalent expenditures in 2002.

The company expects to once again generate significant free cash flow, which will continue to be utilized in its debt reduction program. Year-end net debt is targeted to decline to approximately $49 to $51 billion.

Accounting for Asset Retirement Obligations

Effective Jan. 1, 2003, Verizon has adopted new accounting rules (SFAS 143) for recognizing the costs of legal obligations associated with the retirement of fixed assets. Verizon has not yet finalized the impact of adopting SFAS 143 but expects to record a one-time net income benefit of approximately $2 billion in the first quarter 2003 and an ongoing annual net income benefit of approximately 1 to 2 cents per share.

Reported Results for 2002

For the year, reported earnings were $4.1 billion, or $1.49 a share, including a net charge of $4.3 billion, or $1.56 a share. This net charge includes special gains of $4.0 billion related to the sales of assets and tax benefits. These gains were more than offset by charges, including $5.7 billion in investment-related items associated with Genuity, CANTV in Venezuela and other interests; $1.3 billion related to severance, pension and benefit costs; nearly $0.5 billion for the cumulative effects of an accounting change; merger transition costs of $0.3 billion; and other items totaling $0.5 billion.

Reported operating revenues and operations and support expenses were $67.6 billion and $42.0 billion, respectively, for the year.

Business Segment Highlights

Following are fourth-quarter and year-end 2002 highlights from Verizon's four business segments.

Domestic Telecom:

Current and prior periods exclude the 1.27 million switched access lines sold during the third quarter of 2002.

- More than half of Verizon's 10.4 million long-distance customers are in states in the former Bell Atlantic territory, and long-distance market share among consumers is more than 35 percent in New York and Massachusetts. Verizon has 2.7 million long-distance customers in New York and Connecticut, nearly 1 million customers in both Massachusetts and Pennsylvania, and nearly 500,000 customers in New Jersey.

- ONE-BILL service, which provides Verizon local, long-distance and wireless charges on a single monthly bill, is now available in 20 of the 29 states where Verizon provides wireline services, with more than 150,000 customers enrolled in the service.

- In November, Verizon's Enterprise Services Group launched its Enterprise Advance initiative to interconnect the company's local networks and provide large business and government customers with advanced communications services. Initial sales were generated based on the new regional availability of frame relay and SONET (Synchronous Optical Network) services that provide reliable high-speed transport.

- Data services revenues grew to more than $1.85 billion in the quarter, driven by nearly 7 percent quarterly growth over the same period last year for data transport services and 9.2 percent growth for the year. Annual data revenue reached nearly $7.3 billion.

- In the network services market, special access revenues increased 9.5 percent in the quarter, to $1.38 billion. For the year, special access revenues grew 11.6 percent, to $5.5 billion.

- Domestic access line equivalents increased 4.5 percent to 135.8 million, compared to the fourth quarter 2001.

Verizon Wireless:

- Verizon Wireless continued its focus on quality, profitable growth. The company's strong fourth-quarter performance was due to its continued low churn, low-cost structure, increasing average revenue per user (ARPU) and strong demand for Verizon Wireless branded products.

- Retail net adds in the quarter were 929,000, up 18.4 percent over the fourth quarter 2001. The company also added 6,000 new customers from property acquisitions and 35,000 from reseller operations. The company's retail customer base grew 14.7 percent year-over-year to 31.4 million of the company's 32.5 million total customers.

- Monthly service revenue per subscriber increased to more than $49 for the quarter, up 6 percent over the prior year's quarter.

- The company continued to lead the industry in low-cost structure as cash expense per subscriber decreased more than 2 percent for the quarter and 1 percent for the year. EBITDA margin increased for the quarter and the year, to 40.1 percent and 39.1 percent, respectively.

- Retail churn for both the quarter and for 2002 continued to decrease year-over-year. Including post-pay and pre-pay, retail churn was 2.1 percent in the quarter and for the year. Churn in the retail post-pay segment, which is 91 percent of the company's base, was even lower – at 1.8 percent for the fourth quarter and the year. Total churn, including retail and resellers, was 2.1 percent in the quarter, and 2.3 percent for the year.

- Quarterly EBITDA increased more than 34 percent to $1.9 billion, while EBITDA for the year was up more than 15 percent to $6.9 billion. Service revenues for the quarter grew almost 17 percent to $4.7 billion, with total revenues up more than 16 percent to $5.2 billion. For the year, service revenues and total revenues each grew nearly 11 percent to $17.7 billion and $19.3 billion, respectively.

- Coupled with this growth, the company reduced its capital expenditures in 2002 to $4.4 billion from $5.0 billion in 2001, excluding capitalized non-network software.

- The company continued to invest in its premier network to preserve quality and gain new efficiencies. Network usage increased more than 45 percent in 2002 over 2001, while efficiency as measured by percentage of capital expenditures to revenue, capital expenditures per minutes of use and cost per minutes of use continued to improve.

- Demand for the company's data and text services continued to increase in the quarter. The company also launched more data-friendly devices with color screens, 1X speeds, and Get It Now capability for downloading games, entertainment and other applications. Text messaging continued to grow dramatically, with the number of billed messages increasing more than 43 percent over the prior quarter.

- Product innovation in the fourth quarter included a suite of services for corporate customers that enables them to receive alerts from and access and navigate their corporate e-mail and voice mail using their wireless phones and voice commands.

International:

Reflects deconsolidation of CTI to the equity method and consolidation of PRTC in both the current and prior periods.

- Fourth-quarter revenues were $731 million, bringing full-year revenues to $3.0 billion, compared to $813 million and $3.2 billion in the fourth quarter and full-year 2001, respectively. The revenue decline reflects weak economic conditions and declining foreign exchange rates. Operating income improved 6.6 percent in the quarter, to $146 million, due primarily to cost reductions driven by improved productivity.

- The number of proportionate wireless customers in Verizon's core Americas properties grew by 12.8 percent to 3.0 million, compared to the prior year. Total proportionate wireless customers served by Verizon's International investments is now 8.7 million, compared to 8.9 million in 2001. Adjusted for assets sold during 2002, total proportionate wireless subscribers grew 12 percent.

- During 2002, International successfully implemented roaming agreements that enable customers of Verizon affiliates in Canada, Mexico and Puerto Rico to have seamless roaming services on the Verizon Wireless network when they are in the United States.

- During the fourth quarter, Verizon sold its 5.4 percent interest in Cable & Wireless plc. The transaction, which is part of the company's continuing efforts to sell non-strategic assets, resulted in proceeds of approximately $281 million. The impact of this sale has been removed from Verizon's International segment results and from Verizon's income before non-recurring items.

Information Services:

- Fourth-quarter revenues from Verizon's directory publishing and electronic commerce operations of $1.4 billion decreased 3.8 percent primarily due to the impact of changes in publication dates. Revenues for 2002 of $4.3 billion were down slightly compared to 2001, reflecting the sale of certain wireline properties and related directories as well as reduced affiliate revenue.

- Revenues from SuperPages.com, Verizon's domestic Internet directory service, grew 43.3 percent and 63.7 percent over the fourth quarter and the year, respectively, as Information Services continues to be the dominant leader in online directory services.

SuperPages.com yellow pages searches grew 28.7 percent and 82.4 percent over the fourth quarter and the year, respectively.

NOTE: The financial tables associated with this news release can be found on Verizon's Investor Web site.

Verizon Communications (NYSE:VZ) is one of the world's leading providers of communications services. Verizon companies are the largest providers of wireline and wireless communications in the United States, with 135.8 million access line equivalents and 32.5 million Verizon Wireless customers. Verizon is also the largest directory publisher in the world. With more than $67 billion in annual revenues and 229,500 employees, Verizon's global presence extends to 33 countries in the Americas, Europe, Asia and the Pacific. For more information on Verizon, visit www.verizon.com.

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NOTE: This press release contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. The following important factors could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements: the duration and extent of the current economic downturn; materially adverse changes in economic or labor conditions in the markets served by us or by companies in which we have substantial investments; material changes in available technology; technology substitution; an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations; the final results of federal and state regulatory proceedings concerning our provision of retail and wholesale services and judicial review of those results; the effects of competition in our markets; our ability to satisfy regulatory merger conditions; the ability of Verizon Wireless to continue to obtain sufficient spectrum resources; our ability to recover insurance proceeds relating to equipment losses and other adverse financial impacts resulting from the terrorist attacks on Sept. 11, 2001; and changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

SBC Reports Fourth-Quarter Earnings Per Diluted Share of $0.71, $0.62 Before Special Items and Expensing Stock Options

San Antonio, Texas, January 28, 2003

Fourth-Quarter Earnings Package
Our newest Investor Briefing
Consolidated Statements of Income (1Q01 to 4Q02)
Consolidated Statements of Segment Income (1Q01 to 4Q02)

SBC Communications Inc. (NYSE:SBC) today announced that concurrent with its fourth-quarter earnings it now recognizes the fair value of stock options as an expense. This expense is included in reported results for both current and prior-year periods. For the fourth quarter ended Dec. 31, 2002, SBC's reported earnings totaled $2.4 billion, or $0.71 per diluted share, compared with $1.2 billion, or $0.35 per diluted share, in the fourth quarter of 2001.

Before special items and the impacts of expensed stock options, SBC's fourth-quarter 2002 earnings were $0.62 per diluted share compared with $0.64 in the year-ago period. (Special items and accounting changes in both quarters are described in detail below.)

Fourth-quarter reported revenues totaled $11.2 billion, down 5.8 percent from $11.9 billion in the year-ago period. Together with proportionate revenues from Cingular Wireless, the nationwide wireless company 60 percent owned by SBC, revenues totaled $13.3 billion, down 5.3 percent from $14.0 billion in the year-ago period. Total operating expenses declined 7.2 percent to $9.0 billion on a reported basis and 5.7 percent to $10.2 billion before special items and including proportionate results from Cingular.

"Our results reflect a continued difficult environment marked by a struggling economy, a tough competitive market and an uneven regulatory landscape," said Edward E. Whitacre Jr., chairman and CEO. "Revenues continued to be under intense pressure, with earnings driven by very effective cost discipline.

"Despite these challenges, we made progress in a number of key areas during the fourth quarter, including significant growth in DSL subscribers, launching new product bundles, and successful entry into our largest long-distance market, California."

Fourth-Quarter Highlights
During the fourth quarter, SBC:

Added 245,000 DSL Internet subscribers, bringing its total to 2.2 million, up 65 percent from year-ago levels. This is the fourth consecutive quarter of sequential DSL subscriber growth for SBC, which remains the nation's largest DSL provider.
Achieved 2.5 percent consumer retail line penetration within 19 business days after launching long-distance service in California. SBC ended the year with 6.1 million long-distance lines, a 25 percent increase from the end of 2001. Additionally, SBC filed with the Federal Communications Commission in January to begin offering long-distance service in Michigan and Nevada. The company expects to gain regulatory approvals to offer long-distance service in its six remaining states in 2003.
Introduced "SBC Total Connections," an innovative enterprise-wide

product bundling strategy that includes a premium offer combining local, long-distance where approved to offer it, Cingular wireless and SBC Yahoo! DSL services with a single bill.

- Ended the quarter with 21.9 million Cingular Wireless subscribers, up 1.5 percent from the end of 2001. Average revenue per user increased year over year for the sixth consecutive quarter. Cingular had negative net customer additions of 121,000 during the quarter.
- Delivered its fifth consecutive quarter with a year-over-year decline in normalized cash operating expenses and reduced full-year normalized cash operating expenses by $1.6 billion compared with 2001.
- Reduced capital expenditures to $1.8 billion, down 42 percent from $3.1 billion in the fourth quarter of 2001. For the full year, SBC reduced capital expenditures to $6.8 billion, a 39 percent decline from $11.2 billion in 2001.
- Reduced total debt, net of cash, by $4.7 billion during the quarter.
- Lost 1.2 million retail access lines during the quarter, including 810,000 access lines provided to competitors under unbundled network element platform (UNE-P) rules.

Special Items and Accounting Changes

SBC's 2002 fourth-quarter reported results include the following one-time items: combined charges of $276 million for enhanced pension benefits, pension settlements, severance costs and real estate costs related to force-reduction programs; a gain of $425 million on the redemption of SBC's interest in Bell Canada; a tax benefit of $280 million resulting from a restructuring of SBC's ownership of Sterling Commerce Inc.; and charges of $76 million for SBC's proportionate share of impairments, severance and restructuring costs at Cingular.

SBC's reported 2001 fourth-quarter results included the following one-time items: pension settlement gains of $96 million related to management employees, primarily resulting from a year 2000 voluntary retirement program net of costs associated with that program; combined charges of $459 million related to directly and indirectly held international investments; a charge of $128 million representing a proposed merger savings settlement agreement in Illinois; and combined charges of $425 million associated with SBC's comprehensive review of operations which resulted in decisions to reduce work force, terminate certain real estate leases and shut down certain operations.

Also, in accordance with generally accepted accounting principles (GAAP), 2001 results include the amortization of goodwill and of FCC cellular licenses, which, beginning with 2002, are no longer amortized in accordance with the adoption of FAS 142.

Concurrent with its fourth-quarter 2002 earnings release, SBC's results also now recognize stock options as an expense in both current and prior-year periods. This change reduces fourth-quarter reported earnings in both 2002 and 2001 by $0.02 per diluted share. It reduces full-year reported earnings per diluted share by $0.08 in 2002 and by $0.07 in 2001.

In addition, as discussed in SBC's third-quarter Form 10-Q filing, three of SBC's pension plans ended the year with accumulated benefit obligations in excess of plan assets, resulting in a $1.5 billion charge to equity at the end of 2002. This charge has no impact on SBC's income statements.

Full-Year Results

SBC's full-year reported earnings for 2002 before extraordinary items and the cumulative effect of accounting change (FAS 142) were $7.5 billion or $2.23 per diluted share, compared with $7.0 billion, or $2.07 per share, in 2001. These results include expensing for stock options, which reduce full-year reported diluted earnings per share by $0.08 in 2002 and by $0.07 in 2001. Before expensing stock options and special items, earnings per diluted share were $2.24 in 2002 and $2.35 in 2001.

On a reported basis, revenues for 2002 were $43.1 billion, compared with $45.9 billion in 2001. Operating expenses totaled $34.5 billion in 2002, versus $35.4 billion in 2001. Before special items and including proportionate results from Cingular Wireless, revenues were $51.8 billion in 2002, compared with $54.3 billion in 2001. Operating expenses totaled $40.6 billion in 2002, versus $42.2 billion in 2001.

2003 Outlook
Starting with first-quarter 2003 results, SBC will continue to present reported results but will no longer include in its quarterly results a normalized income statement. Special items and results from Cingular — which is accounted for as a joint venture and therefore does not affect reported revenues and expenses — will be detailed separately. The discussion below uses this approach and is focused on targeted 2003 reported results.

For 2003, SBC expects a continuation of current competitive and economic trends, resulting in the following operating expectations:

- Continued negative access line trends, with long-distance entry in additional states and expansion of SBC's recently announced companywide bundling initiative helping to slow the rate of decline as the year progresses.
- Consistent long-distance growth, with entry in all remaining states this year — and an approximate 20 percent long-distance retail line penetration in each state within 12 months after launch.
- Continued solid DSL growth, with companywide penetration of locations passed at approximately 10 percent by the end of 2003.
- Modest growth in data transport revenues, driven by the weak economy and continued network cutbacks by wholesale customers.
- Modest subscriber and revenue growth at Cingular Wireless, with stable average revenue per user and stable churn.

In addition to these expected operating trends, SBC anticipates in 2003:

- Low single-digit percentage declines in consolidated revenue.
- Significant increases in operating expenses, primarily driven by an increase in pension and medical costs.
- A slight decline in total force, with work force reductions in some areas being offset by an increase in sales force.
- Increased spending to expand sales coverage of business markets, both in and out of region, and to increase advertising in support of long-distance launches and new competitive offers. SBC expects this increase to have a negative impact on annual reported EPS comparisons of $(0.06) — $(0.07).
- The continued deployment of Cingular's new GSM network, with a target of 90 percent of its covered population and all major markets complete by the end of 2003. Costs associated with this initiative are expected to reduce 2003 EPS by $(0.06) — $(0.07).
- Increased medical expenses for active employees, which are expected to have a negative impact on annual reported earnings-per-share (EPS) comparisons of $(0.03) — $(0.05).
- Capital expenditures of $5 billion — $6 billion, or 12 -14 percent of revenues, excluding Cingular Wireless.

SBC also discussed the following special items and their expected impacts on 2003 reported results:

- EPS pressure of $(0.35) — $(0.40) related to increased pension and postretirement benefit costs due to unfavorable returns from capital markets, anticipated reductions in pension and postretirement benefit assumptions, and increased expenses for postretirement medical benefits.
- A decrease in reported EPS of $(0.01) — $(0.03) related to international transactions and asset dispositions, including the sale of

SBC's stakes in Cegetel and Bell Canada, as well as smaller transactions.
A positive EPS impact of \$0.04 — \$0.06 related to the adoption of FAS 143, which reduces the amount of depreciation recognizable from certain assets. Adoption of this standard will also result in a one-time increase in net income of about \$2 billion — \$4 billion in the first quarter of 2003.

Impacts from most of the special items and initiatives discussed above — increased pension/postretirement benefits, medical expenses, adoption of FAS 143, expanded sales force and advertising, and Cingular's network build — are expected to be spread fairly evenly across the four quarters.

SBC expects these items to have the following impacts on first-quarter 2003 reported results, compared with first-quarter 2002 reported results:

A first-quarter decrease in EPS of \$(0.12) — \$(0.14) related to the combination of increased pension and postretirement benefits and medical expenses, adoption of FAS 143, increased sales and advertising costs, and Cingular's network build.
A positive EPS impact of \$0.26 — \$0.28 related to the disposition of international assets, including a gain from the sale of SBC's stake in Cegetel.
A decrease in EPS of \$(0.02) — \$(0.04) related to directory schedule changes and economic impacts on directory advertising revenues.
With no immediate improvements expected in the economic and regulatory environment, SBC expects the core business to continue on its fourth-quarter trajectory, including further retail line losses to UNE-P competitors and soft data growth. SBC expects expense savings to continue, but at a slower rate than in the fourth quarter as opportunities for short-term cuts diminish, while pension/medical costs increase.

"Although we expect tough economic conditions to continue in the near term, our long-term view is very positive," said Whitacre. "The combination of a strong balance sheet, excellent markets, superior products and services, and a dedicated work force makes us optimistic about SBC's future."

SBC to Expand Disclosure
In addition to expensing stock options using guidelines from FAS 123, SBC said that starting with first-quarter 2003 results, it will expand its disclosure of business fundamentals — including further breakdowns of revenues and expenses. Also with the release of 2003 first-quarter results, SBC will no longer report normalized earnings, but will continue to provide a discussion of special items in its quarterly earnings news releases. This change is consistent with the direction of the Securities and Exchange Commission's new rules which discourage the use of pro forma financial statements.

Cautionary Language Concerning Forward-Looking Statements
Information set forth in this news release contains financial estimates and other forward-looking statements that are subject to risks and uncertainties. A discussion of factors that may affect future results is contained in SBC's filings with the Securities and Exchange Commission. SBC disclaims any obligation to update or revise statements contained in this news release based on new information or otherwise.

SBC Communications Inc. (www.sbc.com) is one of the world's leading data, voice and Internet services providers. Through its world-class networks, SBC companies provide a full range of voice, data, networking and e-business services, as well as directory advertising and publishing. A Fortune 30 company, SBC is America's leading provider of high-speed DSL Internet Access services and one of the nation's leading Internet Service Providers.

SBC companies currently serve 57 million access lines nationwide. In addition, SBC companies own 60 percent of America's second-largest wireless company, Cingular Wireless, which serves 22 million wireless customers. Internationally, SBC companies have telecommunications investments in 27 countries.

For more detailed information on SBC's fourth-quarter results, visit http://www.sbc.com/investor_relations.